

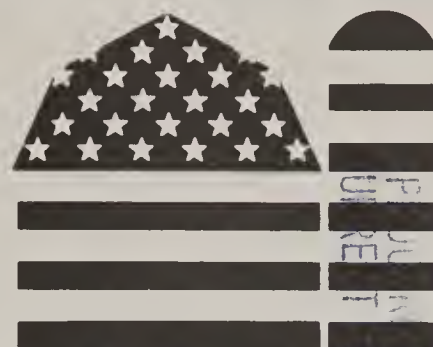
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# FARMERS' NEWSLETTER

## Wheat



August 80/W-14

### No Set-Aside for 1981

A year ago, the decision not to have a set-aside program for the 1980 wheat crop was based on the strong demand outlook, reduced world production, and an expected drawdown of stocks.

Even with this year's bumper U.S. crop and improved world crop prospects, the outlook for continued record overseas demand--and only a small buildup in U.S. and world stocks--points to the need for continued high levels of U.S. wheat production. Thus, the 1981 program is basically unchanged from 1980 : No set-aside. Here's how the 1981 program lines up:

- All wheat producers who plant within their normal crop acreage (NCA) will be eligible for farm program benefits--loans, target price protection, entry into the farmer-owned reserve--without setting aside or diverting acreage.
- The wheat loan rate will be at least \$3.00 a bushel, the same as for the 1980 crop.
- The national program acreage for wheat will be 71 million acres.
- Based on the latest cost of production adjustments, a target price of at least \$3.81 is likely. This compares with \$3.63 per bushel for the 1980 crop.
- If the outlook changes by next spring and it becomes evident that wheat supplies could be excessive in 1981/82, a paid diversion program will

be offered. Also, the final decision on a haying and grazing program will be made before the grazing period begins.

### 1980 Loan Rates Raised

Loan rates were raised on July 28 for 1980 crops of wheat, feed grains, and soybeans. For wheat producers, the following adjustments were made in the 1980 loan rate, reserve release and reserve call price levels.

The loan price for the 1980 crop was raised from \$2.50 to \$3.00 per bushel. This automatically increases the release and call level to \$4.20 and \$5.25 for new crop wheat placed in the reserve. These rates also apply to wheat placed in the reserve before January 8, 1980. For old crop wheat placed in the reserve after January 7, the release and call levels are set at \$4.50 and \$5.55, respectively.

If you have reserve contracts on old crop wheat requiring the higher release and call levels, you have the option of signing a new reserve contract with the lower rates.

These loan and reserve program adjustments strengthen one of your main marketing options--orderly selling until prices reach higher and firmer

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## WEATHER, STRONG DEMAND PROSPECTS BUOY WHEAT PRICES

	May		June		July	
	1979	1980	1979	1980	1979	1980 <sup>1</sup>
Dollars per bushel						
Illinois . . . . .	3.57	3.55	3.88	3.26	3.97	3.80
Kansas . . . . .	3.22	3.44	3.72	3.48	3.85	3.57
North Dakota . .	3.07	3.94	3.55	4.33	3.70	5.05
Oklahoma . . . .	3.26	3.63	3.85	3.57	3.98	3.71
Washington . . .	3.53	3.65	4.02	3.67	3.85	3.80
United States . .	3.20	3.69	3.72	3.69	3.69	3.82

<sup>1</sup> Mid-month.

seasonal levels. Use of the higher loan rate will help you repay some cash operating expenses.

Use of the reserve will in effect help isolate excess stocks from the market until supply and demand forces establish an average farm price at \$4.20 a bushel or higher. Some of your overhead is even recouped by the advance annual storage payment of 26-1/2 cents per bushel.

Because nearly all producers are eligible this year for program benefits, their combined actions can have a greater impact on the market than in previous years when participation was limited to those producers complying with set-aside and other program requirements.

### Prices Advance from Harvest Lows

Although weather proved the major pricemaker as the 1980 wheat crop developed, a cautious selling approach by farmers during harvest also helped prices advance to higher levels. Apparently farmers were waiting to size up the impact of the size and quality of the crop on price trends.

During harvest, farmers were getting 20 to 40 cents a bushel less than a year earlier for new crop winter wheat. But by mid-July, prices strengthened

to an average \$3.82 a bushel, only 13 cents below a year ago.

Farmers' strategy of slow selling, enhanced by the higher loan rate and the likelihood of expanded placements in the 3-year reserve program, will be an important pricemaking factor during the new marketing year that opened on June 1. Strength in this season's prices will also depend on:

- the continuation of strong export sales--currently projected to be a record 1.45 billion bushels,
- the size of the reserve inventory, and
- any adverse weather effects on world grain crops that might tighten world stocks.

So, despite a shaky start at harvest-time, the average farm price for the 1980 crop year is projected to range from \$3.90 to \$4.25 per bushel and may average around 20 cents higher than last year's \$3.82 a bushel.

### RECORD WHEAT USE IN PROSPECT

	1978/79	1979/80 Preliminary	1980/81 Forecast*
Million bushels			
Supply:			
Beginning stocks .	1,177	925	901
Production. . . . .	1,798	2,142	2,325 ± 40
Imports . . . . .	1	2	2
Total supply. . .	2,976	3,069	3,228 ± 40
Use:			
Food . . . . .	591	596	605 ± 5
Seed . . . . .	87	101	100 ± 5
Feed . . . . .	179	96	125 ± 50
Exports . . . . .	1,194	1,375	1,450 ± 100
Total use. . . . .	2,051	2,168	2,280 ± 125
Ending stocks . . . .	925	901	948 ± 125

Dollars per bushel			
Avg. farm price . . .	2.98	3.82	3.90-4.25

\*As of August 12, 1980



## SUPPLY AND DEMAND BY MAJOR WHEAT CLASS<sup>1</sup>

Year beginning June 1, 1980	Hard Winter	Soft Red	Hard Spring	Durum	White	Total
Million bushels						
Beginning stocks . . . . .	436	40	292	57	76	901
Production . . . . .	1,175	433	298	100	319	2,325
Supply, total . . . . .	1,611	473	<sup>2</sup> 591	<sup>2</sup> 158	395	3,228
Domestic						
disappearance . . . . .	384	170	160	48	68	830
Exports . . . . .	775	220	180	70	205	1,450
Disappearance, total . . . . .	1,159	390	340	118	273	2,280
Ending stocks . . . . .	452	83	251	40	122	948

<sup>1</sup> Includes flour and products in wheat equivalent. <sup>2</sup> Includes imports.

### Prospects by Class Vital to the Whole Picture

These newsletters attempt to keep producers abreast of what to expect for total wheat supply and disappearance for the current marketing year.

But the overall picture is really a composite of supply and demand situations for each of the five major wheat classes. The table below provides initial 1980/81 supply and utilization projections for each. Current analysis indicates that:

- Buoyed by the record crop, total supply of Hard Red Winter (HRW) will be the largest since the early 1960's. However, continued growth in overseas demand and reduced availability in some exporting countries suggest another banner year for HRW exports--perhaps a record. Consequently, harvesttime farm prices, which were 20 to 40 cents below a year ago, were probably the lowest we'll see this season.

- Severe drought in the Northern Plains withered what could have been a record Hard Red Spring (HRS) crop into the smallest since 1974. Nevertheless, total HRS supply will remain large enough to meet a somewhat reduced export demand.

Indications of good protein quality and relatively lower prices for competing Hard Red Winter wheat may cause

some shifting of domestic and foreign demand to that class. HRS prices will return to their premium status after being relatively underpriced for over 2 years.

- Dry conditions also lowered 1980 Durum crop expectations. Along with sharply reduced carryin stocks, this season's Durum supply will be the smallest in 6 years. The reduced U.S. and Canadian crops will cause a pronounced shortfall in exportable supplies during 1980/81.

This is likely to lower export activity from last year's record 83 million bushels. Durum prices will be extremely strong throughout 1980/81... probably causing higher retail prices for pasta products.

- Excellent crop conditions and a 35-percent increase in harvested acres resulted in a huge Soft Red Winter (SRW) crop. In turn, this season's supply is at an alltime high. The market's reaction was to lower prices until SRW becomes very attractively priced to foreign buyers. Thus overseas business is expected to be record large which would tend to strengthen prices as the season progresses.

- Soft White wheat production (winter and spring) was also record large;



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adding appreciably to the U.S. total soft wheat supply. Initial export estimates suggest that shipments could be strong--possibly 200 million bushels--as record soft wheat supplies will cause Red and White to vie for the "best" buy throughout the season.

Production Costs Rise

While this year's average farm price may well top last season's \$3.82, you're already aware that production costs are going up even faster.

Average production costs--not including the value of land in production--are expected to be nearly a fourth higher for the 1980 crop. Average U.S. expenses may total around \$110 per planted acre, compared with \$90 in 1979, and \$74 in 1978.

Of course, energy costs show the most significant rise--from \$7.63 to \$12.21 per planted acre. Although interest charges represent only a small portion of total expense outlays, they've jumped 60 percent above 1979's level.

On a per-bushel basis, 1980 production costs, excluding land, are estimated around \$3.55 per bushel, and when land

at acquisition value is added, total 1980 wheat production costs can approach \$5 a bushel.

It is important to remember that these costs are national averages. Your costs will be higher or lower depending on soil type, terrain, field size, yield, and other factors.

PRODUCTION COSTS MAY RISE A FOURTH

	1978	1979	1980
	(Final)	(Preliminary)	(Projected)
Dollars per bushel			
Variable . . . . .	\$ 1.24	1.38	1.69-1.93
Machinery ownership . . . . .	.78	.87	1.05-1.20
Overhead . . . . .	.24	.24	.27- .31
Management . . . . .	.22	.25	.30- .35
Total . . . . .	2.48	2.74	3.31-3.79
Land charged at current price . . . . .	1.57	1.86	2.36
Total costs/bushel. . . .	4.05	4.60	5.67-6.15
Land charged at acquisition price . . . . .	.81	.96	1.17
Total costs/bushel. . . .	3.29	3.70	4.48-4.96
Total cost for the average renter including rental payment	3.69	3.93	5.00
Bushels			
Yield per planted acre .	29.9	32.5	28.9-33.1